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C O N F I D E N T I A L SECTION 01 OF 02 TEGUCIGALPA 001337

SIPDIS

C O R R E C T E D COPY - CORRECTING OVERALL CLASSIFICATION

SIPDIS

STATE FOR EB/IFD, WHA/EPSC, INR/IAA, DRL/IL, AND WHA/CEN  
STATE FOR L/LEI, EB/OMA  
STATE PASS USTR FOR ANDREA MALITO AND CATHERINE HINCKLEY  
JUSTICE FOR CRIMINAL DIVISION/FRAUD SECTION/MARK MENDELSON  
AND WILLIAM JACOBSON

E.O. 12958: DECL: 08/07/2027  
TAGS: [ECPS](#) [ETRD](#) [PGOV](#) [KJUS](#) [PINR](#) [HO](#)  
SUBJECT: HONDURAS: "LIZZIE LAW" FALLS VICTIM TO CORRUPTION

REF: A. A: TEGUCIGALPA 1325  
[1](#)B. QB: TEGUCIGALPA 1077  
[1](#)C. C: TEGUCIGALPA 579  
[1](#)D. D: TEGUCIGALPA 925

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Classified By: AMB Charles Ford for reasons 1.4 (b) and (d).

1.(C) SUMMARY: The much anticipated telecoms bill was pulled from Congress August 7 after Congressional VP Lizzi Flores received a death threat. The withdrawal of the legislation comes after strong hopes that the bill would receive the two-thirds majority needed to override a promised Presidential veto. Flores had bypassed the Executive branch in introducing the bill last month ) an almost unheard of step in Honduras. The executive branch, led by President Jose Manuel "Mel" Zelaya and Marcelo Chimirri, head of the state telecom company Hondutel, waged a high-profile and expensive campaign to derail the bill. At stake is a corrupt system that allows a few key players to reap millions of dollars in illicit profits. END SUMMARY.

"LIZZIE LAW" WITHDRAWN  
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[1](#)2. (C) Per ref (A) The proposed new telecom law, aimed at reducing state telecom company Hondutel's ability to make illicit profit through grey lines, was pulled from Congress on August 7. The move came one day after vice president of Congress Lizzie Flores reportedly received a death threat related to that law. Per Congressional sources, Flores most likely will not go forward with the new law for fear of physical reprisals.

[1](#)3. (C) Per ref (B), Congress had committed to introduce and pass a key telecommunications regulatory law, promised since the ratification of CAFTA-DR in late 2005, in July if the executive branch failed to gain widespread approval on its own draft. Introducing a bill directly from Congress, while not impossible, is considered extremely rare in the executive-dominated Honduran political system. On June 28, Post convened a meeting with key Congressmen, the President of the Supreme Court Vilma Morales, and Dante Mossi of the World Bank to better understand the legal basis behind the

maneuver. The group came away with the strong conviction that Congress could introduce the law soon.

¶4. (C) That afternoon, EconChief visited Flores, who announced defiantly that she was going to introduce the bill on the first day of the new Congressional session, July 2. Flores subsequently did so, and the bill became known informally as the "Lizzie Law."

¶5. (C) The bill ignited an escalating war of words between the executive branch and Congress over telecommunications reform. In Congress, the bill went immediately to the telecommunications committee, headed by Nationalist party leader Fito Irias Navas. (Comment: Navas was so surprised that the bill was introduced July 2 that he initially resisted it, blasting the executive branch for introducing yet another bad bill. Only after several calls from supporters did he realize the new bill was one that his party supported. End Comment).

¶6. (C) Navas then turned to Dante Mossi from the World Bank to "consent" the Lizzie Law by incorporating comments from key stakeholder groups. Comments were received from a private telecom group, Hondutel, and social activist groups. By the end of July, the revised bill, and a formal opinion by the telecom committee called a Dictamen, was ready for presentation to the full Congress for the first of three planned debates. (Comment: The &consenting8 process, normally done by the executive branch, seeks to reconcile conflicting comments from stakeholders and in theory produce a consensus draft. Post worked closely with Mossi on the revised version and has sent it to USTR for review and comment. End Comment).

#### EXECUTIVE BRANCH: SEEKING TO REGAIN INITIATIVE

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¶7. (C) The executive branch, initially caught by surprise at

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the introduction of the Lizzie Law, scrambled throughout July to derail the bill. The main protagonists behind stopping the bill include President Zelaya, the President of telecom regulator CONATEL Rasel Tome, and the head of Hondutel Marcelo Chimirri. Credible sources and confirmed financial information implicate Chimirri in extortion and laundering of illicit funds gained through "grey line" traffic, or international calls terminated illegally in Honduras (ref B and septel). Zelaya has protected Chimirri despite strong evidence of corruption and is rumored to operate a grey-line network out of his own house. (ref C)

¶8. (C) The grey line traffic is made possible by the artificially high international rates set by Hondutel. Post believes that a new telecom law that would introduce competition would quickly remove the inflated margins that make the illegal traffic profitable, consequently drying up Chimirri's funds flow that sources have estimated at between USD 500,000 to 700,000 a month. (Comment: The abnormally high rates are evident in the financial statements of TIGO, one of three mobile operators currently allowed to terminate international calls in Honduras. In 2006, one-third of the world wide profits of TIGO parent company Milicom were made in Honduras, the third poorest country in the hemisphere. End Comment).

¶9. (C) With significant money at stake, Chimirri, Zelaya and Tome embarked on a public relations campaign throughout July that included multi-million dollar ads, interviews with stations loyal to (and paid for by) the executive branch, and personal attacks on Lizzie Law proponents. Chimirri has personally threatened private industry leaders, stating on a popular radio station that he would "kill them first" before the bill passes. The campaign ignited a high-profile war of words between Chimirri and Liberal Party congressional leader Valentin Suarez, whose son was fired by Chimirri and may

become the fall guy for several suspicious international contracts negotiated in the last two years. Suarez publicly stated that Chimirri is using the phone number series 213 for his grey lines. EconChief subsequently talked to a confessed grey line trafficker, who complained of having to move all his grey line businesses from 213 to 693 based on Chimirri's instructions.

MORE THAN JUST TELECOM  
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¶10. (C) On July 31, Ambassador called the President of Congress Roberto Micheletti, who had earlier promised to present the consented Lizzie Law for debate in Congress by the end of July. In the conversation, Micheletti backed off from his commitment, stating that an agreement was still possible with the executive branch and that more time was needed. Per sources, Micheletti had communicated the day before with President Zelaya, and negotiations were underway on a variety of topics including Supreme Court appointments, support by select congressmen, Micheletti's planned run for President in 2009, and even legal protection for Zelaya after he left office.

¶11. (C) With all comments in, and Mossi finished with the consented Lizzie Law and dictamen, sources from the telecom commission and Lizzie Flores indicate that the bill could be introduced the week of August 6. Micheletti privately stated that August 9 would be the day to start the first debate, while leaving the week-end for President Zelaya to respond. Per sources, the game would then be focused on winning enough Congressional votes to override a Presidential veto.

¶12. (C) COMMENT. A backward and overpriced telecommunications market is a major obstacle to economic development in Honduras. Post has spent considerable resources to persuade Honduras to pass and enforce a new telecoms law. If corrupt forces are able to use physical intimidation to defeat the initiative so as to perpetuate an inefficient state monopoly that enriches the few at the expense of modernization for the many, it will be a major blow to an already weak investment climate and a step backward for CAFTA-DR compliance. END COMMENT.  
FORD